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*Russell W. Schrader
Vice President and Senior Counsel*

December 16, 1997

Cynthia L. Johnson
Director
Cash Management Policy and
Planning Division
Financial Management Service
U.S. Department of the Treasury
401 14th Street, S.W., Room 420
Washington, DC 20227

Re: Notice of Proposed Rulemaking: Electronic Funds Transfer of
Federal Payments

Dear Ms. Johnson:

VISA U.S.A. and VISA International (collectively "Visa")¹ are submitting this comment letter in response to the Department of the Treasury's notice of proposed rulemaking to establish a framework for the conversion of federal payments to electronic fund transfers. This Treasury Department proposed rulemaking was published in the Federal Register (62 Fed. Reg. 48714) on September 16, 1997, and is referred to in this comment letter as the "Proposed Rule."

Visa is the country's -- and indeed the world's -- largest consumer payment system. Visa is made up of nearly 21,000 financial institution members from around the world that issue Visa brand cards. There are more than 580 million Visa cards held by consumers globally, which are accepted at more than 14 million merchant locations and 350,000 automated teller machines worldwide. Visa -- which provides transaction authorization, clearing and settlement, and risk management services to financial institution members -- supports more than \$1 trillion in Visa-related payment transactions annually throughout the world. Visa's transactions volume in the United States is approximately \$470 billion per year.

¹ Visa U.S.A. and VISA International are each membership organizations comprised of financial institutions licensed to use the Visa service marks in connection with payment systems.

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Visa is writing this letter to offer its support -- in the ways discussed below or otherwise -- to the Treasury Department in its effort to convert substantially all federal payments to electronic fund transfers by 1999. Visa and its member financial institutions have consistently sought to educate their customers on the convenience and safety of direct deposit of funds and electronic access to such funds. Visa believes that the Treasury proposal will bring such benefits to broad segment of U.S. consumers and businesses.

Recipient Access To Federal Payments

The Proposed Rule requests comment on a number of issues relating to the access of a recipient, who presently does not have an account at a financial institution, to his or her federal payment. The Proposed Rule contemplates that these recipients will be provided plastic transaction cards which they can use to access their federal payments through established retail payment system networks. Visa believes these cards should provide recipients broad nationwide access to their federal payments as described below, and the Treasury's final rule should specifically provide for access of this nature.

Visa believes the recipients should be entitled to use their cards to access their federal payments at both automated teller machines ("ATMs") and merchant point-of-sale ("POS") locations throughout the United States. Given the mobility of our society, including the federal benefit recipient population, recipients should be provided the flexibility to access their federal payments at ATM and POS facilities located anywhere in the United States, and throughout the world. Moreover, even if the recipient does not move or travel, he or she may deal with merchants in distant locations, through catalog sales, telephone-based transactions, Internet shopping and other non face-to-face transactions, and should be able to use his or her card for these transactions as well.

The card also must be able to accommodate both on-line (PIN based) and off-line (signature based) transactions if it is to provide recipients effective access to their federal payments.² Only about one million of the 14 million merchants worldwide that accept Visa cards have the requisite PIN pads and related technology to accept PIN based on-line transactions. If the card can only accommodate on-line transactions, recipients will not be able to use the card at the vast number of merchants (13 million in the Visa system) that are not on-line capable. These merchants are often the smaller "Mom and Pop" stores, who cannot as readily afford the technology necessary to support on-line transactions. It is precisely these merchants who are often frequented by recipients of

² We would note that under the Electronic Fund Transfer Act, cardholders are provided the same protections from unauthorized transactions for both on-line and off-line debit cards.

federal payments. It is only fair to these recipients and these merchants that recipients be able to transact the same kind of business with their card that they currently do with government checks or cash.

Visa's existing payments system and payment cards offer the broad access of the type described above. Visa Interlink and PLUS provide access to the over 350,000 ATMs nationwide and worldwide that bear the Visa and/or PLUS marks. Visa debit cards offer both on-line and off-line access to over 14 million merchant locations worldwide. In addition, all transactions processed through the Visa payments system are subjected to comprehensive risk monitoring by Visa and member financial institutions, providing both strong deterrence and early detection of potential fraudulent transactions by criminals who have stolen or compromised cardholder account data.³ The Visa payments system also can discourage fraud and theft of payment cards by permitting card issuers to block certain merchant categories from receiving payment. A Visa mark on the card that is issued to these federal payment recipients (along with one or more other marks of local or regional networks) could enable the card to access the Visa payments system, where necessary to complete the types of transactions described above. Visa would be pleased to work with the Treasury Department to enable these payment cards to provide this type of access and risk control.

Federal Payments to Recipient's Bank

The Treasury Department indicated in the Proposed Rule that existing Treasury electronic payment services rely primarily upon the automated clearing house ("ACH") system for distribution and settlement of federal payments to the recipient's bank. Fedwire is also used for certain other payments, such as payments that need to be confirmed immediately. However, it is further stated in the Proposed Rule that the Treasury Department is continuously "researching and developing new electronic payment products," and comment is specifically invited on new and improved electronic payment methods.

³ In this regard, Frank Raines, the Director of the Office of Management and Budget, and Sally Katzen, the Administrator of the OMB's Office of Information and Regulatory Affairs, attended a presentation at Visa's Operations Center in October of 1997 regarding the systems and techniques that Visa uses to monitor and identify fraudulent transactions processed through the Visa payments system.

Visa would be pleased to work with the Treasury to explore whether the Visa E-Pay service could accommodate Treasury's needs in this regard.⁴ This service would enable Treasury to send funds (and related payment information) through Visa members and the Visa system to any recipient account maintained at one of the almost 21,000 Visa members worldwide. By leveraging the current Visa payments system, the Treasury could realize for these payments the secure access, authentication, authorization, exception management and clearing and settlement provided by this system.

The Visa E-Pay service may offer particular advantages for the Treasury for certain types of transactions, relative to the payments mechanisms it currently utilizes. For example, the on-line real-time authorization or the ability to pass information with the payment to all recipients provided by the Visa system may be particularly important for certain federal payments. Unlike Treasury's existing electronic payments mechanisms, the Visa system also can accommodate international transactions (that is, payments to recipients who maintain accounts at financial institutions outside the United States). Many recipients of federal payments reside outside the United States (e.g., retirees), and would benefit from having their payments directly deposited in their existing accounts at foreign banks, rather than having to establish new U.S.-based accounts for receipt of these payments. Certain other recipients may also for whatever reason be more comfortable receiving their federal payments through the Visa system, relative to the ACH. This may be particularly true, for example, of certain government vendors that accept credit card or debit card payments but do not otherwise originate or receive ACH transactions.

In addition, by leveraging the private-sector inter-bank payment infrastructure through the use of Visa E-Pay, Treasury payments would benefit from the comprehensive system of internal controls that Visa and its member financial institution have established to ensure the timeliness and finality of Visa payments. In addition to advanced security and operational safeguards, providing for maximum cost-effective message integrity, business resumption and contingency planning, Visa ensures compliance by its member financial institutions with explicit standards for their financial condition and the operational performance of their Visa programs. Members that fail to meet these standards may become subject to conditions on the operation of their Visa programs, including a requirement that they secure their payment obligations to other Visa members. Through the administration of these controls, Visa actively manages risk inherent in the interchange of payment obligations among financial institutions.

⁴ As the Treasury is aware, certain pilot programs have specifically tested this Visa E-Pay service for certain government agency payments.

Cynthia L. Johnson
December 16, 1997
Page 5

As indicated above, we would be pleased to work with the Treasury to assist it in determining whether Visa E-Pay could be helpful to it in implementing the EFT '99 initiative, at least with respect to certain federal payments.

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Visa very much appreciates this opportunity to comment on the Proposed Rule. If Visa can be of assistance to the Treasury in connection with its EFT '99 initiative, either in the ways suggested in this letter or otherwise, or there are any questions regarding this letter, please do not hesitate to contact me at (650) 432-3111.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Russ Schrader", written in a cursive style.

Russell Schrader
Vice President and Senior Counsel